

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of the Nebraska Public)	Application No. NUSF-64
Service Commission, on its Own Motion)	
Seeking to Investigate the Use of Expense)	
Caps in the Earnings Calculation for)	
Universal Service Fund Support)	

**DIRECT TESTIMONY OF SUE VANICEK
ON BEHALF OF THE
NEBRASKA RURAL INDEPENDENT TELEPHONE COMPANIES**

I. INTRODUCTION

A. WITNESS BACKGROUND.

Q. PLEASE STATE YOUR NAME, EMPLOYER, AND BUSINESS ADDRESS.

A. My name is Sue Vanicek. I am employed with Consortia Consulting, Inc. My business address is 233 South 13th Street, Suite 1225, Lincoln, Nebraska 68508.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of the Nebraska Rural Independent Telephone Companies (to be referred to as the "Companies"). The Companies provide local exchange and exchange access services predominantly in the more rural parts of Nebraska.

Q. WHAT IS YOUR CURRENT POSITION?

A. I am a Senior Consultant at Consortia Consulting, which assists local exchange telephone companies in regulatory analysis and representation, as well as evaluation of financial and operational decisions.

Q. WHAT ARE YOUR DUTIES AND RESPONSIBILITIES AT CONSORTIA CONSULTING?

A. I monitor and analyze state and federal regulatory proposals that could affect our clients' operations, and advise them of potential impacts. I work with our clients to develop responses to regulatory proposals, including comments and testimony. The most common issues I work with are universal service and a host of regulations that have resulted as the Telecommunications Act of 1996 has been implemented.

1 Q. WHAT WAS YOUR EXPERIENCE PRIOR TO YOUR CURRENT POSITION?

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3 A. For 14 years I was employed by Lincoln Telephone/Aliant Communications. I
4 held a variety of positions specializing in regulatory and legislative analysis and
5 strategic planning. My most recent position at Aliant Communications was
6 Economic Costs and Analysis Manager. In that position I was responsible for
7 managing the development of cost information, both forward-looking and
8 historical, and for analyzing and developing responses to state and federal
9 regulatory proposals on issues such as universal service.

10
11 Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

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13 A. I have a Master of Arts degree in Economics and a Bachelor of Science degree in
14 Business Administration, both from the University of Nebraska-Lincoln.

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16 **B. PURPOSE OF THIS TESTIMONY**

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18 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

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20 A. The purpose of my testimony is to address the Nebraska Public Service
21 Commission's ("Commission") proposed methodology for implementing expense
22 caps in the earnings calculation for Nebraska Universal Service Fund ("NUSF")
23 support as described in the December 18, 2007 Order Seeking Comment,
24 Establishing Procedural Schedule, and Setting Hearing. The Companies have
25 generally asserted throughout this proceeding that the Commission has not set
26 forth the policy objectives it is attempting to fulfill through the implementation of
27 expense caps. The Companies have also noted that the Commission already has
28 adequate mechanisms in place to ensure that NUSF support is used for its
29 intended purposes and to support reasonable expenses.

30
31 **II. A POLICY RATIONALE HAS NOT BEEN OFFERED FOR EXPENSE**
32 **CAPS.**

33
34 Q. HAS THE COMMISSION OFFERED ANY EXPLANATION REGARDING
35 THE POLICIES IT IS ATTEMPTING TO PROMOTE THROUGH THE
36 IMPLEMENTATION OF EXPENSE CAPS?

37
38 A. No. In opening this docket, and throughout this proceeding, the Commission has
39 not offered any explanation of the policies it is attempting to promote through the
40 implementation of expense caps.

1 Q. HAS THE COMMISSION PREVIOUSLY ESTABLISHED A POLICY BASIS
2 FOR ITS ORDERS DEALING WITH ADMINISTRATION OF THE NUSF?
3

4 A. Yes. In establishing the permanent mechanism to distribute NUSF High Cost
5 Program support, the Commission asked parties to identify and explain how the
6 Commission should interpret the legislative principles of the Nebraska
7 Telecommunications Universal Service Fund Act (the “NTUSFA”) and apply
8 such principles to the permanent mechanism in the form of operational goals.¹
9 The Commission also explained how the NUSF permanent distribution
10 mechanism is consistent with statute.²
11

12 Q. HAVE THE COMPANIES RECOMMENDED THAT THE COMMISSION
13 SHOULD CLEARLY ARTICULATE THE POLICIES THAT IT WISHES TO
14 ACHIEVE THROUGH THE IMPLEMENTATION OF EXPENSE CAPS?
15

16 A. Yes. The Companies first suggested at the January 31, 2007 workshop that the
17 Commission should address a series of questions regarding the policy rationale
18 for expense caps before proceeding with the development of a methodology to
19 implement expense caps. The Companies also presented these same questions in
20 comments filed on April 7, 2007. The primary questions that the Companies
21 urged the Commission to consider before proceeding with the development of a
22 methodology to implement expense caps are:
23

24 What policy or policies should the Commission seek to promote through the
25 potential implementation of expense caps in this docket?
26

27 If incenting investment in plant needed to support advanced services is a desired
28 policy, how do expense caps support such an incentive?
29

30 Q. DO THE COMPANIES CONTINUE TO RECOMMEND THAT THE
31 COMMISSION SHOULD ESTABLISH POLICY-BASED REASONS FOR
32 EXPENSE CAPS BEFORE PROCEEDING TO IMPLEMENT SUCH CAPS?
33

34 A. Yes. The Companies continue to assert that the Commission should address the
35 policy-related questions above before proceeding to develop and implement
36 expense caps. However, as I will explain in the following section of my
37 testimony, the Companies believe that current oversight mechanisms for the
38 NUSF High Cost Program are sufficient and that expense caps are not needed.

¹ See *The Nebraska Public Service Commission, on its Own Motion, Seeking to Establish a Long-Term Universal Service Funding Mechanism*, Application No. NUSF-26, Progression Order No. 2 (entered Aug. 27, 2002) at ¶¶ 7-29.

² See *The Nebraska Public Service Commission, on its Own Motion, Seeking to Establish a Long-Term Universal Service Funding Mechanism*, Application No. NUSF-26, Findings and Conclusions (“*NUSF-26 Order*”) (entered Nov. 3, 2004) at ¶¶ 9-11.

1 **III. CURRENT NUSF HIGH COST PROGRAM OVERSIGHT MECHANISMS**
2 **ARE SUFFICIENT.**

3
4 Q. DOES THE COMMISSION CURRENTLY HAVE MEASURES IN PLACE TO
5 ASSURE THAT THE NUSF HIGH COST PROGRAM IS BEING
6 ADMINISTERED IN A FAIR AND REASONABLE MANNER?

7
8 A. Yes. The Commission has several oversight mechanisms for the NUSF High
9 Cost Support Program.

10
11 Q. WOULD YOU PLEASE DESCRIBE THESE OVERSIGHT MECHANISMS?

12
13 A. Yes. The distribution mechanism for the NUSF High Cost Program, the Support
14 Allocation Methodology or “SAM,” is based upon forward-looking economic
15 costs. Forward-looking economic costs are based upon the most efficient
16 telecommunications technology currently available and the lowest cost network
17 configuration. Therefore, the amount of support distributed is based upon a low
18 cost estimate for providing service within a given support area. Furthermore, the
19 amount of support distributed is only 27 percent of the total cost to provide
20 telephone service less imputed telephone service revenue. Thus, carriers are
21 receiving support that covers only a fraction of the total costs, including expenses,
22 to provide telephone service, and that fractional amount is computed on the basis
23 of the most efficient carrier.

24
25 Another mechanism that the Commission uses to oversee the proper use of NUSF
26 High Cost Program support is the annual reporting requirement it established in
27 Application Nos. NUSF-25/NUSF-66. The Commission established an annual
28 reporting requirement to ensure that federal and state high-cost universal service
29 support is being used for the intended purposes. As part of the NUSF-25/NUSF-
30 66 reporting process, all Eligible Telecommunications Carriers (“ETCs”) and
31 Nebraska ETCs (“NETCs”) receiving NUSF High Cost Program support are
32 required to file one year of historical investment data, including any expenses, for
33 the provision, maintenance, and upgrading of any facilities or services by
34 exchange (wire center) or county. In addition to the historical investment data, an
35 ETC or NETC must file a one-year investment schedule, including any expenses,
36 for provision, maintenance, and upgrading of facilities or services for the
37 prospective year by exchange (wire center) or county.

38
39 In addition to the oversight mechanisms I have described above, the Commission
40 continues to control the earnings level of NETCs by monitoring earnings through
41 use of the NUSF-EARN form and adjusting NUSF High Cost Program support
42 amounts distributed so that an NETC earns no more than the maximum allowable

1 rate of return.³ This oversight mechanism has been in place since the NUSF High
2 Cost Program was instituted.
3

4 Q. IN YOUR OPINION, ARE THE NUSF HIGH COST PROGRAM OVERSIGHT
5 MECHANISMS YOU HAVE JUST DESCRIBED SUFFICIENT TO ASSURE
6 THAT THE PROGRAM IS ADMINISTERED IN A FAIR AND
7 REASONABLE MANNER?
8

9 A. Yes. I believe that the current oversight mechanisms for the NUSF High Cost
10 Program are sufficient to monitor and ensure that NUSF support is being used for
11 the intended purpose. Therefore, I believe that expense caps are not needed.
12

13 Q. DOES THIS CONCLUDE YOUR TESTIMONY?
14

15 A. Yes, it does.

³ Id. at ¶ 61.